

## **Make Allowances and Class I Differentials, Two Sides of the Same Economic Coin**

**Mike Brown, IDFA:**

**Exhibit 214, page 7:**

**“Thus, current make allowances are based on cost data submitted more than 16 years ago. Unless those make allowances are adjusted to changes in industry costs, manufacturers are trapped in either losing money on every pound of product produced or stopping production entirely.”**

**Dairy Farmer Suppliers to Class I:**

**“Thus, current Class I Differentials are based on hauling data determined more than 25 years ago. Unless the Class I Differentials are adjusted to changes in hauling costs, dairy farmers are trapped in either losing money on every mile milk is hauled or stopping milk deliveries to distant plants entirely.”**

## **Make Allowances and Class I Differentials, Two Sides of the Same Economic Coin, Continued**

**Mike Brown, IDFA:**

**Exhibit 214, page 10:**

**“The urgent need to promptly address and update make allowances cannot be seriously denied. No one thinks the current manufacturing allowances remotely reflect current manufacturing costs.”**

**Dairy Farmer Suppliers to Class I:**

**“The urgent need to promptly address and update Class I Differentials cannot be seriously denied. No one thinks the current Class I Differentials remotely reflect current hauling costs.”**

## **Make Allowances and Class I Differentials, Two Sides of the Same Economic Coin, Continued**

**Mike Brown, IDFA:**

**Exhibit 214, page 15:**

**“The existing use of fixed out-of-date make allowances is a major problem for all dairy product manufacturers producing cheese, butter, whey and nonfat dry milk. These everyday losses are impossible to sustain.”**

**Dairy Farmer Suppliers to Class I:**

**“The existing use of fixed out-of-date Class I differentials is a major problem for all raw milk suppliers to Class I. These everyday losses are impossible to sustain.”**

## Make Allowances and Class I Differentials, Two Sides of the Same Economic Coin, Continued

**Mike Brown, IDFA:**

**Exhibit 214, page 27:**

**“IDFA cooperative members and other manufacturers that serve as nearby outlets for local farm milk and as balancers of billions of pounds of FMMO milk cannot come close to covering their costs under current FMMO provisions. This is simply unsustainable.”**

**Dairy Farmer Suppliers to Class I:**

**“cooperative members and other marketers of farm milk that serve as suppliers to distant Class I plants and as balancers of billions of pounds of FMMO Class I milk cannot come close to covering their hauling costs under current FMMO Class I Differentials. This is simply unsustainable.”**

## Make Allowances and Class I Differentials, Two Sides of the Same Economic Coin, Continued

**James DeJong, Glanbia Nutritionals:**

**Exhibit 196, page 4:**

**“GN believes FMMO make allowances must be maintained to reflect reality. The FMMO system relies on these make allowances to set minimum pricing and distribute pool revenues, while the industry uses these prices to make investment decisions, set the pricing of milk, and are heavily used in CME and USDA risk management tools. However, when these make allowances are not maintained, as they haven’t been in 15 years, we can expect to see market distortions and further real-world variances versus the USDA announced Class prices.”**

**Dairy Farmer Suppliers to Class I:**

**“Dairy farmers believe FMMO Class I Differentials must be maintained to reflect reality. The FMMO system relies on these Class I Differentials to set minimum pricing and distribute pool revenues, while the industry uses these prices to make investment decisions, and set the pricing of milk. However, when these Class I Differentials are not maintained, as they haven’t been in 25 years, we can expect to see market distortions and further real-world variances versus the USDA announced Class prices.”**